MCI Telecommunications
Corporation

MCI

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 19, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Re: Universal Service Reform, CC Docket No. 96-45

Dear Ms. Salas:

MCI WorldCom, Inc. (MCI WorldCom) urges the Joint Board to adopt the following recommendations in connection with the referral of issues by the Commission in the Order and Order on Reconsideration, CC Docket No. 96-45, FCC 98-160, released July 17, 1998.

The Joint Board should find that current levels of universal service support from implicit and explicit sources are sufficient. Thus, the Joint Board should reject the idea that additional "new" federal universal service dollars are needed to keep rates affordable. MCI WorldCom believes that the evidence presented at the Joint Board's meeting on October 30, 1998, and the comments filed in this proceeding support this conclusion. The task for the Commission, therefore, is to identify the current "implicit" subsidies in interstate rates, remove those subsidies, and, to the extent necessary, make those subsidies explicit. As demonstrated in the chart attached hereto, the implicit subsidy in interstate rates is in originating and terminating access charges. Accordingly, as implicit subsidies are made explicit, interstate access charges must be reduced by the amount of the explicit subsidy.

The Joint Board should reject the GTE proposal on access charge reductions for a number of reasons. As an initial matter, the incumbent local exchange carriers'(ILECs') ability to offer different rate levels for access based on a non-cost based factor is inherently suspect under Section 202 of the Communications Act. While the FCC has permitted discrimination in pricing, the discrimination must be "not unreasonable," a finding that almost universally is grounded in an examination of cost. In addition, while ILECs would set the differential access charges at their discretion, and on a carrier-by-carrier basis, the GTE proposal would require interexchange carriers (IXCs) to flow through access reductions in an across-the-board fashion. The proposal also should be rejected because it provides ample opportunity for the LECs to discriminate in favor of their own subsidiaries since ILECs would be the apparent arbiter of whether or not an IXC has passed through access reductions. Rather than adopt the GTE proposal, the

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Commission should focus on the real access charge issue--namely, access remains priced well above cost and so-called "market-based" reform has not materialized to put downward pressure on rates.

The Joint Board should find that explicit federal universal service support should be tied to the advent of competition. As acknowledged by almost all parties, although current support levels are sufficient, as competition develops, implicit subsidies could be driven out of rates. Thus, to ensure that universal service continues to be sufficient, implicit subsidies may need to be replaced by explicit subsidies when competition develops. MCI WorldCom's proposal to tie the calculation of universal service support to the degree of unbundled loop rate deaveraging in the ILEC's service area is one way to "tie" the amount of support to the advent of competition.

The Joint Board should reaffirm the commitment to the use of forward-looking economic cost to determine the amount of universal service support needed. Support based on forward-looking economic cost will be sufficient to keep rates affordable without being excessive. Implementing an explicit fund that is larger than the minimum needed to ensure affordable rates places an unnecessary burden on consumers and harms competition by imposing unnecessary burdens on IXCs and other interstate carriers. Universal service support is not intended to be and should not be used to keep ILECs whole as competition develops.

However, to ensure that support levels remain sufficient during the transition to the new universal service support mechanisms, the Commission could guarantee each state interstate funding at least at the level of high cost funding it now receives, regardless of the outcome of the cost (as determined by the model) to revenue benchmark comparison. In other words, additional costs allocated to the interstate jurisdiction by Rule 36.631 would be the minimum amount funded by the explicit interstate universal service fund.

Finally, the Joint Board should find that carriers should be able to recover universal service contributions through rates, surcharges or any other means. As long as high cost support is a cost to carriers that they must recover as best they can through charges to their end-user customers, carriers must have maximum flexibility in the recovery of this cost.

Sincerely,

Mary J. Sisak

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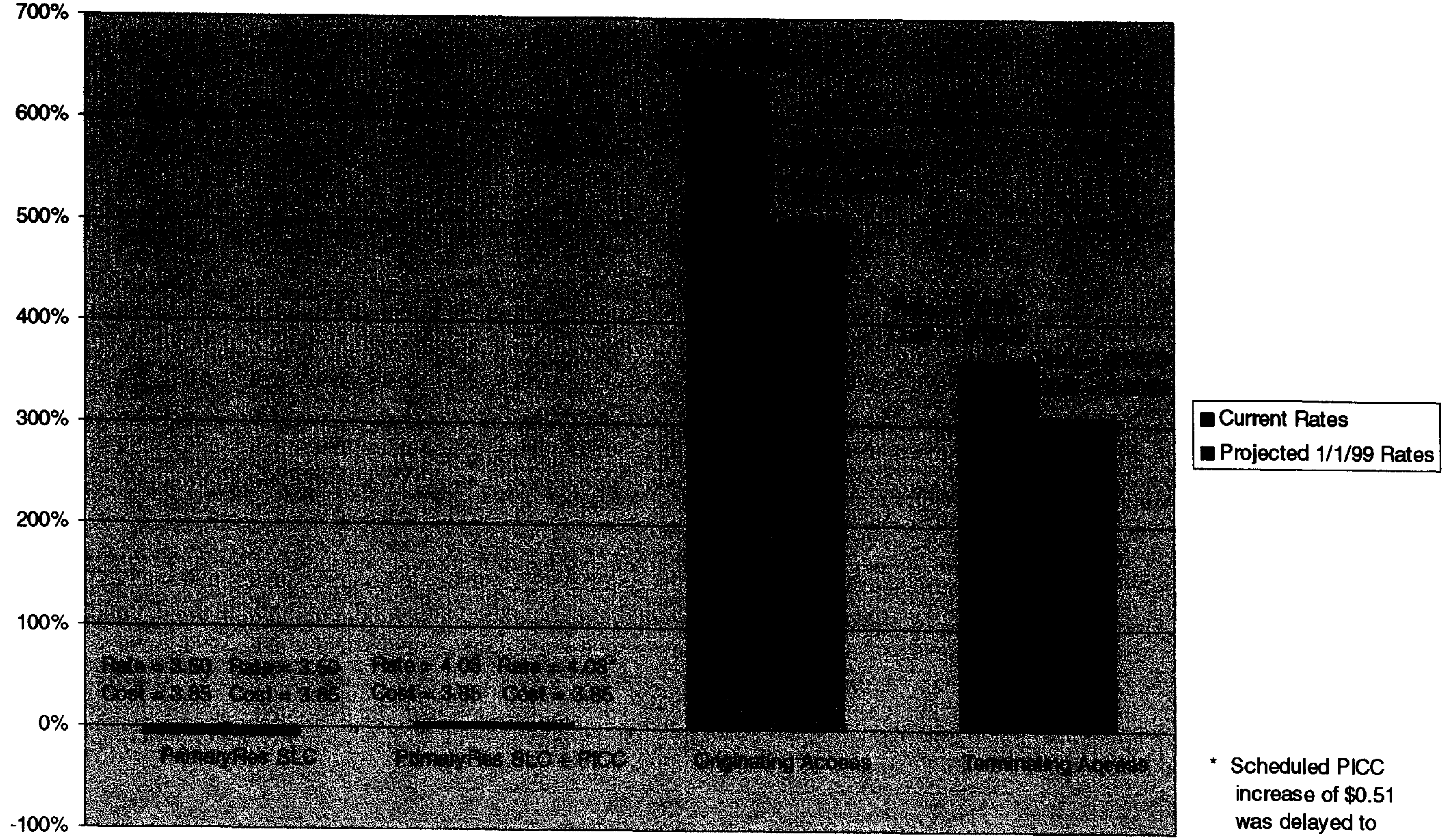
Attachment

cc: Commissioner Ness
Commissioner Tristani
Commissioner Furchtgott-Roth
Chairman Johnson
Commissioner Baker
Commissioner Schoenfelder
Ms. Hogerty
Chairman Wood

MCI WORLDCOM

Percent By Which Rates Exceed Costs



* Scheduled PICC increase of $0.51 was delayed to 7/1/99